

Message Text

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ORIGIN ARA-14

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DRAFTED BY USIDB:EJFINKEL:SMCP
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E.O. 11652: N/A

TAGS: EAID, IDB, BL

SUBJECT: IDB-FINANCED PROJECT--BROWN AND ROOT PROBLEM

REF: LA PAZ 5443

1. FROM USIDB. APPRECIATE EMBASSY REPORTING RE BROWN
AND ROOT PROBLEM. COMPANY OFFICIAL (BUSCHER) HAS BEEN IN
TOUCH WITH IDB STAFF AND HAD APPOINTMENT TO SEE USIDB REPS
DUNGAN AND FINKEL JULY 7 BUT CANCELLED AT LAST MINUTE
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WITHOUT EXPLANATION.

2. IDB STAFF INFORMED USIDB JULY 21 THAT BROWN AND ROOT
DEFINITELY OUT OF PICTURE ON PRICE BASIS AND COMPANY HAS
TERMINATED NEGOTIATIONS. SECOND FIRM WITH PRINCIPALLY
ISRAELI OWNERSHIP (ENGINEERING SERVICES INTERNATIONAL)
ALSO OUT OF PICTURE; THIS FIRM CONSIDERED INELIGIBLE SINCE
LOAN 480/SF APPROVED PRIOR TO DATE NATIONALS OF NEW
NON-REGIONAL MEMBER COUNTRIES BECAME ELIGIBLE SOURCES FOR

FSO GOODS AND SERVICES. ALLEGED IMPROPER PAYMENTS BY ENGINEERING SERVICES INTERNATIONAL REGARDED BY STAFF AS IN NO WAY DETERMINING BROWN AND ROOT OUTCOME IN VIEW OF BROWN AND ROOT PRICE OFFER. STAFF EXPRESSED SERIOUS DOUBT THAT THIRD FIRM, DE LEUW CATHER OF CANADA (DELCANDA), WHICH HAS NUMBER OF IDB PROJECTS GOING AND DOES EXTENSIVE BUSINESS

WITH CANADIAN AID AGENCY FINANCING, WOULD RISK INVOLVEMENT IN IMPROPER PAYMENTS. (STAFF COMMENT DID NOT NECESSARILY EXTEND TO LOCAL ASSOCIATES DELCANDA MIGHT HAVE.) DELCANDA NOW NEGOTIATING WITH SNC RE ROAD STUDY CONTRACT; IDB STAFF ASSUMES, AS YOU DID, THAT NEGOTIATED PRICE WILL BE BELOW BROWN AND ROOT.

3. USIDB ALSO ADVISED THAT BANK HEADQUARTERS HAS TOLD BOLIVIANS THAT THEY MUST APPROACH PROJECT IN TWO STAGES: FEASIBILITY AND DESIGN. WHILE NEGOTIATIONS MAY GO FORWARD WITH FIRMS FOR BOTH PHASES (BROWN AND ROOT MADE OFFER FOR BOTH), CONTRACT MUST MAKE CLEAR THAT DESIGN PHASE IS CONTINGENT ON DECISIONS TO BE TAKEN IN LIGHT OF RESULTS OF FEASIBILITY PHASE. EMB MAY WISH TO NOTE THAT \$5 MILLION IDB LOAN 480/SF IS GLOBAL PRE-INVESTMENT STUDIES LOAN; DETERMINATION TO APPLY PORTIONS TO PARTICULAR SUB-LOANS SUCH AS \$1.2 MILLION FOR ROAD STUDY RESTS BASICALLY WITH LIMITED OFFICIAL USE

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GOB, ALTHOUGH SUB-LOANS OVER \$200,000 REQUIRE IDB CONCURRENCE.

4. IN DISCUSSIONS WITH IDB STAFF, USIDB DETECTED SOME DOUBT AS TO WHETHER UNCIA-MUYUPAMPA ROUTE WOULD BE OF HIGH ECONOMIC PRIORITY, EVEN IF STUDY SHOWED IT TECHNICALLY FEASIBLE TO CONSTRUCT. USIDB URGED STAFF TO CONSIDER THIS CAREFULLY AND REVIEW WITH BOLIVIANS PRIOR TO CONCURRING IN ROAD STUDY SUB-LOAN AND OF COURSE TO DO LIKEWISE WHEN RESULTS OF FEASIBILITY PHASE ARE AVAILABLE. IN THIS CONNECTION, WOULD APPRECIATE EMB COMMENTS ON WISDOM OF CONSTRUCTION OF PROPOSED ROAD. VANCE

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